

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SHALLOW CREEK)
SANITATION CORPORATION FOR AN)
ADJUSTMENT OF RATES PURSUANT TO) CASE NO. 8804
THE ALTERNATIVE PROCEDURE FOR)
SMALL UTILITIES)

O R D E R

On April 11, 1983, Shallow Creek Sanitation Corporation ("Shallow Creek") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method ("ARF") in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

Shallow Creek requested a rate which would produce an annual increase of \$17,657, composed of a general increase of \$12,248 and a 1-year electric surcharge of \$5,409. According to Shallow Creek's application, its present revenues are insufficient to meet its current operating expenses and earn a reasonable return on its investment. In this Order the Commission has allowed a rate to produce an increase of \$8,193.

The Attorney General's office of Consumer Protection intervened in this proceeding. All information requested has been submitted.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Shallow Creek incurred a net loss for the test period of \$5,267. Shallow Creek proposed several pro forma adjustments to its test period operating revenues and expenses to reflect current operating conditions more accurately. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Agency Collection Fee

Shallow Creek projected expenses of \$1,245 for the collection of its bi-monthly sewer bill by the Louisville Water Company. The Commission has made an adjustment of \$168^{1/2} to increase this expense to reflect the increase in the sewer service rate allowed herein.

Rate Case Expenses

Shallow Creek projected rate case expenses of \$2,182 composed of a \$990 amortization expense from its last rate case, Case No. 8183, and current rate case amortization of \$1,192 based on total rate case expenses of \$3,577 amortized over a 3-year period. Upon request the Commission was furnished itemized statements of the time spent and resulting changes in preparation of the current case from the accountant (\$1,200) and the attorney (\$2,000). The Commission is of the opinion that the amount of these two major items included in the cost of preparing the rate application and the preparation time are excessive for a utility the size of Shallow Creek under the ARF procedure, which was developed and implemented by the Commission to reduce substantially the level of professional assistance required in the preparation of rate cases. It is the Commission's opinion and policy in this and future ARF cases that if rate case expenses exceed \$1,000, then the burden of proof is on the applicant to show that such fees were required because of unusual circumstances. If the unusual circumstances involve poor records, then the level of on-going accounting and management expenses will be considered in determining the reasonableness of the rate case expenses. If it is determined that the fees are high because of management preferences, then the fees may be disallowed or divided between management and ratepayers.

The Commission has considered Shallow Creek's ARF application and the evidence of record and finds no unusual circumstances to warrant these fees and has, therefore, concluded that \$1,000 of rate case expenses amortized over a 3-year period is the fair, just and reasonable amount to be paid by the ratepayers. The remaining cost should be considered an expense of Shallow Creek. Thus, the Commission has allowed total rate case expenses of \$1,323^{2/} in the adjusted rate.

Therefore, Shallow Creek's adjusted operations at the end of the test period are as follows:

	<u>Shallow Creek Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 29,954	\$ 2,965	\$ 32,919
Operating Expenses	33,259	(1,738)	31,521
Operating Income	<u>\$ (3,305)</u>	<u>\$ 4,703</u>	<u>\$ 1,398</u>
Interest Expense	4,004		4,004
Net Income (Loss)	<u>\$ (7,309)</u>	<u>\$ 4,703</u>	<u>\$ (2,606)</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Shallow Creek's adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that an operating ratio of 88 percent is fair, just and reasonable in that it will allow Shallow Creek to meet its operating expenses, service its debt and provide a reasonable return to its stockholders. Therefore, the Commission finds that Shallow

Creek should be permitted to increase its rate to produce an increase in annual revenue of \$8,193,^{3/} which includes federal, state and Jefferson County income taxes of \$1,134.

SURCHARGE

In its application Shallow Creek requested a surcharge of \$5,409 to be collected from its 187 customers over a 1-year period. Shallow Creek asserted that it was granted insufficient funds in its last rate case, Case No. 8183, to offset pro forma electricity expenses incurred in 1981 and 1982 in excess of the amount granted by the Commission. Shallow Creek did not explain why it failed to request increased rates during this period.

Under similar circumstances the Commission has denied a request in an ARF application to recover, by means of a surcharge, liabilities incurred for prior years' operating losses. This was determined to be outside the Commission's established rate-making policies and would require a hearing at the very least. Moreover, the Commission also considers Shallow Creek's request retroactive rate-making stemming from management's failure to request increased rates sooner. The rate granted herein provides Shallow Creek ample funds to pay ongoing operating costs.

Therefore, the Commission is of the opinion that the requested electric surcharge of \$5,409 should be denied in its entirety.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Shallow Creek would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A is the fair, just and reasonable rate to charge for sewer service rendered to Shallow Creek's customers and should produce annual revenues of approximately \$41,112.

IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate of Shallow Creek for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Shallow Creek be and it hereby is denied.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Shallow Creek shall file with this Commission its tariff sheets setting forth the rate approved herein and a copy of its rules and regulations for providing sewer service.

Done at Frankfort, Kentucky, this 16th day of September,
1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. $\$1.72 \times .7322 \times 187 \times 6 = \$1,413 - \$1,245 = \$168.$
2. Rate case amortization allowed in Case No. 8183 \$ 990
amortization allowed by the Commission for rate-
making purposes in the current case:
 $\$1,000 - 3\text{-year amortization period}$ 333
Total allowance for rate case expenses \$1,323
3. $\$31,521 + \$1,134 = \$32,655 \div 88 \text{ percent} = \$37,108 +$
 $\$4,004 - \$32,919 = \$8,193.$

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8804 DATED SEPTEMBER 16, 1983

The following rate is prescribed for the customers in the area served by Shallow Creek Sanitation Corporation located in Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES: Monthly

Single Family Residential

\$18.33